

SOUTH VALLEY TRAINING COMPANY, INC.

FINANCIAL STATEMENTS

June 30, 2005 and 2004

CONTENTS

INDEPENDENT AUDITORS' REPORT.....	3
STATEMENTS OF FINANCIAL POSITION.....	4
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	5
STATEMENTS OF FUNCTIONAL EXPENSES	6
STATEMENTS OF CASH FLOWS	8
NOTES TO THE FINANCIAL STATEMENTS	9
SUPPLEMENTARY INFORMATION	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENTAL AUDITING STANDARDS</i>	16
INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE.....	17

WISAN, SMITH, RACKER & PRESCOTT^{LLP}
C E R T I F I E D P U B L I C A C C O U N T A N T S

INDEPENDENT AUDITORS' REPORT

**Board of Directors
South Valley Training Company, Inc.
Sandy, Utah**

We have audited the accompanying statements of financial position of South Valley Training Company, Inc. (a nonprofit organization) as of June 30, 2005 and 2004, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Valley Training Company, Inc. as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2006 on our consideration of South Valley Training Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Salt Lake City, Utah
January 12, 2006

Wisan Smith Racker & Prescott LLP

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SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,684	\$ 51,635
Receivables:		
Accounts receivable - net of allowance for uncollectible amounts of \$10,000 in 2005 and \$1,500 in 2004	43,185	26,465
Contracts and grants	67,969	68,288
Other	3,496	80
Net receivables	<u>114,650</u>	<u>94,833</u>
TOTAL CURRENT ASSETS	126,334	146,468
FURNITURE AND EQUIPMENT	<u>54,237</u>	<u>74,538</u>
TOTAL ASSETS	<u>\$ 180,571</u>	<u>\$ 221,006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 88,381	\$ 119,262
Accrued expenses	27,284	22,329
Current portion of obligation under capital lease	<u>22,412</u>	<u>31,065</u>
TOTAL CURRENT LIABILITIES	138,077	172,656
OBLIGATION UNDER CAPITAL LEASE	72,110	79,488
UNRESTRICTED NET ASSETS (DEFICIT)	<u>(29,616)</u>	<u>(31,138)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 180,571</u>	<u>\$ 221,006</u>

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
SUPPORT AND REVENUES		
Support:		
Grants	\$ 670,412	\$ 703,228
Corporate contributions	355	1,812
Interest	12	-
In-kind donations	<u>15,535</u>	<u>-</u>
TOTAL SUPPORT	686,314	705,040
Revenue:		
Training	238,431	175,900
Production	227,888	479,626
Miscellaneous	<u>5,284</u>	<u>895</u>
TOTAL REVENUE	<u>471,603</u>	<u>656,421</u>
TOTAL SUPPORT AND REVENUE	1,157,917	1,361,461
EXPENSES		
Program services	1,067,407	1,226,593
Supporting services:		
Management and general	<u>88,988</u>	<u>122,340</u>
TOTAL EXPENSES	<u>1,156,395</u>	<u>1,348,933</u>
CHANGE IN UNRESTRICTED NET ASSETS	1,522	12,528
Unrestricted net assets (deficit) - beginning of year	<u>(31,138)</u>	<u>(43,666)</u>
Unrestricted net assets (deficit) - end of year	<u>\$ (29,616)</u>	<u>\$ (31,138)</u>

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2005

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries and wages	\$ 470,082	\$ 52,242	\$ 522,324
Employee benefits	94,541	10,504	105,045
Payroll taxes	45,732	5,081	50,813
Professional fees	26,057	-	26,057
Office supplies	27,387	1,141	28,528
Telephone	15,677	2,342	18,019
Postage	1,133	-	1,133
Rent	74,353	13,129	87,482
Equipment rental	16,406	-	16,406
Travel	19,395	1,238	20,633
Interest expense	4,942	-	4,942
Depreciation	21,835	-	21,835
Miscellaneous	19,526	604	20,130
Bad debt	44,875	-	44,875
Bank charges	180	25	205
Dues and subscriptions	797	-	797
Repairs	46,171	-	46,171
Contract labor	70,837	-	70,837
Insurance	42,833	1,504	44,337
Utilities	15,534	992	16,526
Taxes and licences	9,114	186	9,300
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 1,067,407</u>	<u>\$ 88,988</u>	<u>\$ 1,156,395</u>

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2004

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries and wages	\$ 637,212	\$ 63,296	\$ 700,508
Benefits and taxes	154,945	958	155,903
Contract labor	136,652	-	136,652
Bad debt expense	5,159	-	5,159
Communications	15,655	-	15,655
Depreciation	601	22,757	23,358
Insurance	26,166	4,171	30,337
Interest	21,955	-	21,955
Miscellaneous	4,965	6,106	11,071
Professional fees	11,858	-	11,858
Rent	104,768	15,563	120,331
Repairs and maintenance	34,607	-	34,607
Shipping and freight	-	3,746	3,746
Supplies	32,151	1,242	33,393
Travel	24,736	3,682	28,418
Utilities	15,163	819	15,982
	<u>1,226,593</u>	<u>122,340</u>	<u>1,348,933</u>
TOTAL EXPENSES	\$ <u>1,226,593</u>	\$ <u>122,340</u>	\$ <u>1,348,933</u>

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net change in unrestricted net assets	\$ 1,522	\$ 12,528
Adjustments to reconcile change in net assets to net cash from (used by) operating activities:		
Depreciation	21,835	23,358
Bad debts	44,875	5,159
In-kind equipment donations	(1,535)	-
(Increase) decrease in assets:		
Accounts receivable	(61,595)	(18,108)
Contracts receivable	319	18,289
Other assets	(3,416)	(80)
Increase (decrease) in liabilities:		
Accounts payable	(30,881)	30,110
Accrued expenses	4,955	(24,396)
Net cash flows from (used by) operating activities	<u>(23,921)</u>	<u>46,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash from disposal of equipment	<u>-</u>	<u>16,926</u>
Net cash flows from investing activities	-	16,926
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid to reduce obligations under capital lease	<u>(16,030)</u>	<u>(22,212)</u>
Net cash used by financing activities	<u>(16,030)</u>	<u>(22,212)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(39,951)	41,574
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>51,635</u>	<u>10,061</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 11,684</u>	<u>\$ 51,635</u>

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The South Valley Training Company, Inc. (SVTC) is a non-profit corporation, exempt from income tax under Internal Revenue Code 501(c)(3).

SVTC helps disabled persons living in the Sandy, Utah area to reach their highest level of independent living through vocational service programs.

Basis of Presentation

The financial statements are prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. SVTC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Support that is restricted by contract or donor provisions is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. Temporarily restricted net assets are reclassified to unrestricted net assets in the period the restriction expires.

Equipment and Furniture

Equipment and furniture are stated at cost or, if acquired by gift, at the estimated fair market value at the date of the gift. Depreciation is provided over the estimated useful life of the related assets using the double declining method.

Capital Leases

Equipment operated under lease agreements that transfer substantially all benefits and risks associated with the assets to the Company are capitalized. An asset and liability equal to the present value of minimum payments over the term of the lease is recorded. Amortization is calculated using the double declining method over the estimated useful lives of the assets and is included in depreciation expense for financial reporting purposes.

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of temporary cash investments and trade accounts receivable.

The Company maintains its cash balances at a financial institution. At times such balances may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

As of June 30, 2005, approximately 50% of the Company's accounts receivable were from a single customer. This customer is a division of the State of Utah, therefore this concentration of credit risk is minimal.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. No contributions have been recorded as restricted support.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible accounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Donated Materials and Services

Donated materials and equipment are recorded as support at their estimated values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. During the fiscal year ended June 30, 2005, SVTC received \$1,535 in donated equipment (\$0 in 2004).

Donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated. During the fiscal year ended June 30, 2005, SVTC received an in-kind donation from its landlord for \$14,000 for two months of rent (\$0 in 2004).

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

Expenses are charged to program services based on direct expenditures incurred. Any expenditures not directly chargeable are allocated between the vocational program and support services based on payroll or building square foot percentages, depending on the nature of the expenditure.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain amounts in 2004 have been reclassified to conform to the 2005 presentation.

NOTE 2 - CONTRACTS AND GRANTS RECEIVABLE

At June 30, 2005 and 2004 contracts and grants receivable consisted of the following:

	<u>2005</u>	<u>2004</u>
Division of Human Services	\$ 55,654	\$ 56,035
Hillcrest Care Center	<u>12,315</u>	<u>12,253</u>
	<u>\$ 67,969</u>	<u>\$ 68,288</u>

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 3 - FURNITURE AND EQUIPMENT

At June 30, 2005 and 2004, furniture and equipment consisted of the following:

	<u>2005</u>	<u>2004</u>
Cost:		
Autos and trucks	\$ 67,249	\$ 67,249
Furniture and fixtures	266,797	265,262
	<u>334,046</u>	<u>332,511</u>
Less accumulated depreciation	<u>(279,809)</u>	<u>(257,973)</u>
Net book value	<u>\$ 54,237</u>	<u>\$ 74,538</u>

Depreciation expense in 2005 amounted to \$21,835 (\$23,358 in 2004) of which \$21,106 (\$22,757 in 2004) was attributable to equipment under capital leases.

NOTE 4 - OBLIGATION UNDER CAPITAL LEASE

SVTC's obligation under capital lease at June 30, 2005 and 2004 consisted of the following capital lease obligations:

	<u>2005</u>	<u>2004</u>
Obligations to financial institutions, interest imputed between 5.9%-12.86%, due in monthly installments of \$1,795, including interest, secured by equipment	\$ 85,846	\$ 82,213
Obligations to a financial institution, interest imputed between 6.19%-8.85%, due in monthly installments of \$3,427, including interest, secured by vehicles	<u>8,676</u>	<u>28,340</u>
	94,522	110,553
Less current portion of obligation under capital lease	<u>(22,412)</u>	<u>(31,065)</u>
Obligation under capital lease excluding current portion	<u>\$ 72,110</u>	<u>\$ 79,488</u>

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 4 - OBLIGATION UNDER CAPITAL LEASE (CONTINUED)

The following is a schedule by years of future minimum lease payments required under capital leases.

2006	\$ 35,036
2007	16,200
2008	16,201
2009	16,200
2010	16,473
Thereafter	<u>33,700</u>
Total minimum lease payments	133,810
Less amount representing interest	<u>(39,288)</u>
Present value of minimum lease payments (including \$22,412 classified as current)	<u>\$ 94,522</u>

SVTC has stopped making payments on three loans over a dispute regarding the quality of the machinery originally purchased on a lease between November 2000 and July 2001. Threatened legal action by the lender never materialized after SVTC's attorney sent opposing counsel a compromise to extend the term of the notes and reduce the monthly payment from \$1,795 to \$1,350. Attorneys representing the lender never responded to the offer. Interest on the outstanding balance was accrued as a current liability for the year ending June 30, 2005.

NOTE 5 - OPERATING LEASE OBLIGATIONS

SVTC leases vehicles and its building space under operating leases. The building lease includes a five-year renewal option. Rental expense for operating leases and month-to-month leases amounted to \$103,739 and \$116,374 for the years ended June 30, 2005 and 2004, respectively. Future minimum rental payments under such leases for each of the next five years are as follows:

2006	\$ 110,217
2007	113,228
2008	110,818
2009	100,512
2010	44,062
Thereafter	<u>725</u>
	<u>\$ 479,562</u>

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 6 - SIGNIFICANT DONOR

SVTC received approximately 58% of its public support and revenue from state contracts for fiscal year 2005 (51% for 2004). The state contracts are fee-for-service contracts with the Department of Human Services and the Utah State Office of Rehabilitation.

NOTE 7 - RELATED PARTY TRANSACTIONS

SVTC has a working relationship with the spouse of its executive director for the purpose of obtaining additional client contracts. For this service, the individual is paid up to 10% of the amount of each new contract obtained on behalf of SVTC. During 2005, the individual was paid \$0 for such services (\$1,000 for 2004).

WISAN, SMITH, RACKER & PRESCOTT, LLP
C E R T I F I E D P U B L I C A C C O U N T A N T S

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**The Board of Directors
South Valley Training Company, Inc.**

We have audited the financial statements of South Valley Training Company, Inc. (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated January 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting – In planning and performing our audit, we considered South Valley Training Company, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect South Valley Training Company, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the management letter dated January 12, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions referenced in the management letter is a material weakness.

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Compliance and Other Matters – As part of obtaining reasonable assurance about whether South Valley Training Company Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the management letter

This report is intended solely for the information of the Board of Directors, management and funding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Salt Lake City, Utah
January 12, 2006

Wesley Smith-Rush is President LCP

WISAN, SMITH, RACKER & PRESCOTT, LLP
C E R T I F I E D P U B L I C A C C O U N T A N T S

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

**The Board of Directors
South Valley Training Company, Inc.**

We have audited the financial statements of South Valley Training Company, Inc., (a nonprofit organization) as of the year ended June 30, 2005, and have issued our report thereon dated January 12, 2006. As part of our audit, we have audited South Valley Training Company Inc.'s compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to its major State assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2005. South Valley Training Company, Inc. received the following major assistance program from the State of Utah:

Mental Health Contracts (Department of Human Services, Division of Mental Health)

The management of South Valley Training Company, Inc. is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about South Valley Training Company, Inc.'s compliance with those requirements. We believe our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, South Valley Training Company, Inc. complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2005.

Salt Lake City, Utah
January 12, 2006

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WISAN, SMITH, RACKER & PRESCOTT, LLP
C E R T I F I E D P U B L I C A C C O U N T A N T S

January 12, 2006

Board of Directors
South Valley Training Company
455 West 9160 South
Sandy, UT 84070

Dear Board:

In planning and performing our audit of the financial statements of South Valley Training Company (SVTC) for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect SVTC's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following paragraphs detail our findings, recommendations and the responses from South Valley Training Company's management.

1. The administrative password for QuickBooks was not maintained in a safe place for management use only.

Recommendation: SVTC's Executive Director maintains the administrative password and a separate password be established for SVTC's accountant. By maintaining the administrative password the executive director has the sole ability to enter and approve prior period entries in QuickBooks.

Response: The administrative password for QuickBooks has been changed and will be maintained in a safe place for management use only. Also, a separate password has been established for SVTC's accountant.

2. Documents and transactions entered into QuickBooks were changed once a prior period had been closed or other reconciliations completed.

Recommendation: The prior period should be closed once the adjusting entries are posted and the trial balance reconciled to the audited trial balance. Adjustments to prior period transactions should be made in the current period. New documents correcting the previous errors should be entered and the appropriate paper records maintained to support the correction. Your QuickBooks accounting application allows for the prior year fiscal year to be closed. We recommend using this feature to limit changes to the prior period once the audit begins.

Response: SVTC recently hired a new accountant after dismissing the previous individual who did not possess the necessary accounting skills. The new accountant is familiar with the QuickBooks accounting feature that allows for the prior fiscal year to be closed after posting the audit entries and reconciling the books to the audited trial balance. SVTC has enabled the feature to prevent posting to prior periods without administrator approval.

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AN INDEPENDENT MEMBER OF BDO SEIDMAN ALLIANCE

3. The main training account had an overdraft provision that was never reconciled in your accounting system. Inappropriate entries involving the industrial account were posted when funds were transferred from the overdraft to checking within the training program's account. Such transactions prevent the industrial account from being properly reconciled leading to a misstatement of SVTC's cash.

4. The cash related records were changed and modified after the cash reconciliation for June 30, 2005 was completed. Your version of QuickBooks does not archive the cash reconciliations and as such we were not able to determine which transactions were modified.

Recommendation: Establish a sub-account under the training programs checking account so that the transfer of funds between the checking account and overdraft features are properly recorded. The overdraft should be reconciled each month along with the checking account. Differences noted during the reconciliation should be investigated and any corrections made before completing the reconciliation.

Response: The previous bookkeeper that worked for SVTC did not possess a complete understanding of general accounting procedures and routine accounting functions for non-profit entities. SVTC's new accountant has established sub-accounts under the training programs and is now reconciling the fund transfers between the checking accounts and overdraft features.

5. Financial accounting standards for non-profit entities requires that the costs incurred for programs be appropriately applied to each category.

Recommendation: SVTC should re-establish a method to ensure costs, such as rent, are applied to the training and industrial programs as well as the general category of management and support.

Response: SVTC's new accountant is familiar with general accounting procedures and routine accounting functions. The new accountant also possesses an understanding of the fund type accounting used by non-profit entities. SVTC's new accountant also possesses the necessary understanding to ensure that all costs are appropriately applied to the programs.

6. Currently there are no procedures documented for routine accounting functions.

Recommendation: SVTC should develop written accounting procedures to ensure routine and regular accounting procedures unique to your operations are completed and reported as required.

Response: SVTC has developed written accounting procedures to ensure routine and regular accounting procedures are timely completed.

7. During our audit we noted several transactions posted prior to April of 2005 which required subsequent correction that were untraceable. Those transactions appeared to stem from an accountant that was unfamiliar with QuickBooks and non-for-profit accounting.

Recommendations: The accountants hired by SVCT should be familiar with general accounting procedures and routine accounting functions. Furthermore, such candidates should also possess a basic understanding of the fund type accounting used by non-profit entities.

Response: SVTC has hired a new accountant who possesses an understanding of non-profit accounting in particular and accounting principles in general.

8. Accounts receivables were not accurately stated as of June 30, 2005. The initial review of the aging report resulted in a significant portion of the receivable being written off prior to the mailing of the confirmation letters. A low response to the confirmation letters and a lack of subsequent receipts prompted our recommendation to

increase the allowance for doubtful accounts. At the end of the audit it was noted that the receivables from the state of Utah and Hillcrest had not been recorded in the appropriate period.

Recommendation: Management should review the accounts receivable periodically to determine the accuracy and collectibility of each account.

Response: SVTC has corrected this with the new hire of a more experienced accountant who possesses a basic understanding of the fund type accounting and the accrual method used by SVTC.

9. Equity accounts were used to post corrections to other balance sheet accounts. While most of this activity occurred prior to April 2004, we did note a subsequent instance where that account had been used.

Recommendation: SVTC should use clearing accounts to track transactions that do not immediately clear. The equity accounts should be used only when prior period adjustments are required.

Response: The new accountant has set up a clearing account to track transactions that do not immediately clear.

10. SVTC has three notes for which payments are no longer being made. We talked to both attorneys regarding the matter and confirmed that no collection action is currently in progress. The non-performance on these notes will require extensive disclosure in your financial statements that could impair SVTC's ability to obtain future credit or procure state and federal funding.

Recommendation: Management should consider alternatives to resolve the final standing on the debt.

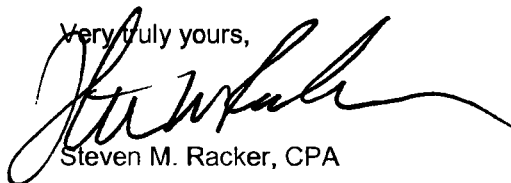
Response: Management has tried to contact someone on the non-performance of these notes and has been unsuccessful at making any progress at this time. Management will continue to take steps to try to resolve this issue.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of SVTC, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Steven M. Racker, CPA